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The Promise of Pacific Economic Cooperation

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Following is a statement by Richard H. Solomon, Assistant Secretary for East Asian and Pacific Affairs, before the Senate Foreign Relations Committee, Washington, D.C., September 21, 1989.

I welcome this opportunity to review with the committee the Administration's approach to enhancing economic cooperation in the Pacific region. This is a topic—as Secretary Baker suggested in a major policy address last June [see Current Policy No. 1185]—whose time seems to have come. The Secretary has called for a new Pacific partnership, of which Pacific rim cooperation is an important element. A variety of proposals have been put forward in recent months, among them one by the distinguished chairman of the Asia subcommittee [Senator Alan Cranston] who, as a Californian, has a keen awareness of the economic dynamism of the Pacific rim. We have been working with the Secretary to meld the best elements of these proposals into our strategy for advancing economic cooperation in order to help realize his call for a new Pacific partnership.

As the Secretary noted in his June speech, the international institutions that have guided us through the postwar years require reassessment, refurbishing, or recreation, for in Asia as in Europe a new international era is upon us. The dominant trends of this new era, which will shape the world of the 21st century, are an increasingly integrated global economy sparked by spectacular technological change; the bankruptcy of communism as an economic and political alternative; and a worldwide trend toward democracy and free enterprise. Our policy challenge is to give institutional form to these trends in a manner consistent with U.S. interests and to the benefit of our allies and friends.

The countries of the Pacific Basin are on the cutting edge of these trends, which makes East Asia a region of great and growing importance to the United States. In recognition of this fact, both President Bush and Vice President Quayle visited East Asia within the first 100 days of taking office. Secretary Baker has made several trips to the region as well. Indeed, as we meet to discuss these issues, the Vice President has embarked on his second trip to the area. This high-level attention reflects our commitment to the objective that, just as the United States has long been a European power and will remain one, so too are we a Pacific power, and we will seek to find ways to enhance our diverse and growing relations with this vast and dynamic region.

The Pacific Success Story

The remarkable success of the outward-looking, market-oriented economies of East Asia is in no small measure a result of the stable environment created by our security presence and our promotion of an open trading system in the framework of GATT [General Agreement on Tariffs and Trade]. Most dramatically, Japan has become the world's second largest economy and a financial superpower in its own right.

The four "lesser dragons" of East Asia—South Korea, Singapore, Hong Kong, and Taiwan—have averaged an outstanding 9% annual growth during the past generation. And now Thailand and Malaysia are forecast to join them as newly industrializing economies (NIEs).

Taken together, the 12 largest economies of the Asia/Pacific region now account for 24% of the world's GNP [gross national product]—roughly equal to that of the United States. They are becoming major players in the world's trading and financial systems. They are increasingly the engine of global growth in a region fully integrated into the global economy. For more than a decade, transpacific trade flows have surpassed those crossing the Atlantic. Last year, commerce across the Pacific totaled $280 billion, overshadowing by almost 50% the $190 billion in transatlantic trade.

U.S. trade with East Asia now accounts for more than one-third of our total foreign commerce, and our exports to East Asia now exceed those to Europe. While our trade deficit with the Asia/Pacific region totaled $98 billion in 1988, 7 of our 20 largest export markets are in the region.

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U.S. investment in East Asia now is in excess of $33 billion, accounting for 23% of all overseas profits earned by American corporations.

Dilemmas of Success

These measures of success, of course, must be seen in the context of the problems of adjustment, as the global trading system seeks to accommodate the dynamic producers and exporters of East Asia. Our large and sustained trade deficit with the region has given rise to pressures for responses which—in effect if not intent—would establish protectionist barriers to the open trading system which has brought such dramatic growth and prosperity to both sides of the Pacific.

Today's dazzling pace of commerce and capital flows, and of technological change, are outstripping the international mechanisms designed to manage their effects. The rapid maturing of the economies of East Asia has transformed longstanding allies into robust commercial rivals. They now compete not only in such manufacturing sectors as electronics and telecommunications, but also in the services sector and finance. These challenges are some of the dilemmas of success; and they confront us with the need to find ways of resolving difficulties without destroying the trading and financial systems that have propeled forward the global economy.

Opportunities for Regional Cooperation

It is in this context that we are now assessing various approaches to enhancing economic cooperation among the nations of the Pacific rim. We can easily identify a host of common concerns that need to be addressed if we are to facilitate economic integration in the Pacific region—from transport and communications to resource depletion, energy, and the environment. These common problems provide a compelling rationale for enhanced regional cooperation.

Let me consider these issues in greater detail.

Transportation. The region's rapid growth has strained the transport infrastructure of the Pacific. The increasing movement of goods and people requires improvements in port facilities, cargo management, airline capacity, customs clearance, safety controls, and personnel training.

Telecommunications. Enhancing the region's communications infrastructure and information networks would promote economic growth by facilitating the flow of information and ideas. Dialogue on coordinating bilateral and multilateral aid flows in the Pacific sector could help leverage and minimize redundancy and inefficiency.

Energy. The need to enhance access to stable and predictable supplies of energy is universal. Pooling data on energy use, demand projections, and resource availability would clearly benefit all nations in the Pacific. And collaboration in energy conservation will become an imperative as we enter the 21st century.

Environment. Resource depletion, coastal protection, and pollution control are among the issues which can be managed effectively only through region-wide cooperation.

In assessing approaches to dealing with these problem areas, I am mindful of a point that Deputy Secretary Eagleburger has made on numerous occasions in recent years: While Europe over the decades has developed an infrastructure of multinational institutions to manage its interdependence and facilitate its integration—which will culminate in 1992 with the creation of a single market—the Pacific, in contrast, lacks such region-wide mechanisms of collaboration. Moreover, our institutional links to the Pacific are meager relative to our European ties.

These facts reflect realities peculiar to the Asia/Pacific region. The vast geographic expanse of the Pacific and its cultural diversity are obvious obstacles to integration. Moreover, historic rivalries and resentments generated in eras past still fuel lingering distrust.

There is also a North-South dimension to the international equation of the Pacific rim. Unlike Europe, levels of economic development in the Pacific Basin vary greatly. There are several tiers of economies: from the advanced industrial states like the United States and Japan, to the NIEs such as South Korea, to developing economies such as Indonesia and the Philippines.

These complex factors help to explain why the idea of a Pacific community has yet to find an organizational expression commensurate with its compelling economic realities. Yet these realities have generated proposals for association among nations of the Pacific in one form or another for decades.

This was certainly the genesis of ASEAN [Association of South East Asian Nations], the most successful of these regional concepts. In the aftermath of the U.S. withdrawal from Vietnam and as the Pacific economies entered their most dramatic decade of growth, ASEAN acquired an integrity that had eluded its predecessors. Although originally conceived as an economic-oriented association, ASEAN gained a certain political dimension—as has been recently expressed in a collective effort to resolve the Cambodia conflict. ASEAN's vitality has now made it one of the pillars of U.S. relations with the Pacific; and we view the association as an essential ingredient in any entity of regional economic cooperation. Indeed, this year's ASEAN ministerial and postministerial meetings were an important forum for discussing possibilities of a new mechanism of Pacific cooperation.

I should also note that growing region-wide economic imperatives have given rise to several other semi-official or private economic institutions, most notably the Pacific Economic Cooperation Council or PECC. PECC was launched in 1980 as an outgrowth of suggestions by Australian Prime Minister Fraser and Japanese Prime Minister Ohira. Its members, including government officials participating in their private capacities, business leaders, and academics, have been meeting on a regular basis to discuss a broad range of trade, economic, and financial issues. Its unofficial status has attracted to it 14 Pacific economies including the People's Republic of China, Taiwan, and a group of South Pacific states. And then there is the Pacific Basin Economic Council (PBEC), an organization of business executives from the Pacific rim economies which has been in existence since 1968.

Why Now Enhance Pacific Economic Cooperation?

Over the past year, the idea of a mechanism to enhance economic cooperation in the Asia/Pacific region has gathered an unprecedented head of steam. Why so? It appears that the crescendo of trade disputes, a maturing of the NIEs beyond the current framework of trade and investment mechanisms, and perhaps the anticipation of European economic integration in 1992, have catalyzed a collective recognition that the time is ripe for some new form of consultative cooperation in the Pacific.

In July 1988, Secretary Shultz suggested the creation of "a Pacific Basin forum where like-minded countries could compare experiences, discuss ideas, and prepare analyses of subjects that are of interest to most countries in the region." He proposed an initial focus on regional infrastructure development in such areas as transport, telecommunications, education, natural resources, and the environment. At the same time, Secretary Baker—while at the Treasury—was quietly testing the waters of increased cooperation among the major Pacific economic players.

These trial balloons appear to have stimulated thinking on the issue both at home and abroad. Last December, Senator

Bradley called for a coalition of eight Pacific rim economies to reinforce the Uruguay Round of GATT, enhance policy coordination, and remove obstacles to LDC [less developed country] growth.

In April of this year, Senator Cranston introduced a resolution calling on President Bush to initiate a Pacific Basin forum which would hold annual summit meetings to discuss, "economic, security, and diplomatic issues unique to the region." The Senator called for obtaining "the broadest possible composition" of such a forum.

Internationally, this past February, Australia's Prime Minister Hawke launched an initiative for what was first called a "Pacific OECD [Organization for Economic Cooperation and Development]" to support multilateral trade liberalization, encourage policy coordination, and remove trade barriers in the region. He suggested creating a small secretariat to backstop a series of high-level meetings. Several weeks later, Japan's MITI [Ministry of International Trade and Industry] offered a similar though more trade-oriented proposal.

The U.S. Response

The Bush Administration has carefully reviewed a plethora of proposals put forward in recent months—among them Senator Cranston's call for a Pacific Basin forum. We view the creation of a new mechanism of economic cooperation as an important component of our vision of a new Pacific partnership. We have sought to integrate elements from the various proposals in formulating the objectives of such a mechanism.

Secretary Baker reviewed our thinking with Prime Minister Hawke when he visited Washington in June. The issue was a major topic of discussion at the ASEAN postministerial meeting in Brunei this past July. And just last week a senior officials' meeting was held in Australia in order to develop an agenda for a ministerial-level meeting which Prime Minister Hawke will host in November.

As these efforts have proceeded, our approach has been guided by the following perspectives.

- We have sought to avoid imposing a "made in America" blueprint for a transpacific grouping. Given the history of unsuccessful efforts in this direction, and the sensitivities involved, progress requires careful, incremental consensus-building if an economic cooperation mechanism is to be created.
- In our view, a mechanism of cooperation will be most useful if it encompasses a wide array of issues—not just trade and investment matters, but those related to transport and communications, resource management, and the environment—issues aimed at effective management of growing regional interdependence.
- The structure and agenda of a Pacific cooperation entity should take into account the diversity of the region's social and economic systems and the markedly different levels of national development.
- Membership must begin with those economies committed to enhancing private initiative and free-market policies—to facilitating the free flow of goods, services, capital, technology, and ideas. But we want participation to be inclusive, with the door open to eventual participation by those countries which are still early in the process of economic reform.
- It is imperative that any mechanism that evolves from current consultations complement existing institutions and processes such as the Uruguay Round of the GATT, the OECD, and ASEAN. It must help, not hinder, efforts to keep the global trading system as open as possible. We seek to create neither a regional superbloc nor a new international bureaucracy.
- Finally, any new arrangement in the Pacific should be flexible. It must be adaptable in a way that reflects the changing needs of regional economic activity and the contributions that private sector institutions as well as governments can bring to enhanced cooperation.

While seeing great promise in this effort, we also are clear-eyed about the difficulties inherent in forging a new institution. Building a consensus requires, among other things, assuring the ASEAN countries that a new mechanism will not weaken their collective efforts or dilute their identity as a regional association.

Another sensitive issue is membership. Should nonmarket economies participate? Should countries outside the region be included?

Despite the many complications and obstacles, Secretary Baker is convinced that there is much to be gained by starting the process of building a framework to help manage the increasingly interdependent economies of the Asia/Pacific region. The dialogue in which we are now engaged has the potential to strengthen the consensus for an open trading and investment system essential for sustaining global economic growth into the 21st century.

Our experience to date is that consensus-building is a delicate and measured process. Last week at the senior officials' meeting, we witnessed significant progress in building the support needed to launch this new initiative. A strong spirit of cooperation was evident throughout the 2-day meeting, which developed the agenda for the November ministerial.

At present, our achievements in this new undertaking must be measured by success in sustaining the momentum of consultations. This enterprise will take time. It will require consistent effort and patience. Momentum is likely to be increased at the Canberra ministerial in early November—which Secretary Baker plans to attend. The already agreed upon agenda lays the basis for wide-ranging discussion, encompassing issues from the multilateral trade system to the region's infrastructure. And we now anticipate follow-on meetings in an East Asian capital within the next year.

Thus, in conclusion, there should be no doubt that the Bush Administration is committed to a long-term effort at enhancing Pacific economic cooperation, for America's future lies in the Pacific. Let me add, Mr. Chairman [Senator Claiborne Pell], that the Administration appreciates the strong bipartisan interest which you and other members of Congress have shown in this effort. We look forward to working closely with you in what we believe is an important and promising initiative in the world's most dynamic region of economic growth. ■

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